



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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### **18 VAC 5-21 – Board of Accountancy Regulations Board of Accountancy July 30, 2004**

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The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.G of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

### **Summary of the Proposed Regulation**

Pursuant to Chapter 291 of the 2003 Acts of the General Assembly, the Board of Accountancy (board) proposes to require continuing professional education (CPE) in ethics. The board also proposes to introduce language concerning the qualifications for, and implementation of the new computerized CPA exam.

### **Estimated Economic Impact**

#### **Ethics CPE**

CPAs who perform services for the public are required to "... obtain 120 hours of CPE during each CPE reporting cycle with a minimum of 20 hours per CPE reporting year. The CPA certificate holder may choose the areas of study and courses." The reporting cycle is three years. CPAs who perform services for only non-public clients or who are employed as an educator in the field of accounting are required to:

meet the following CPE requirements as a condition of renewal of the person's CPA certificate: (i) for the three-year reporting period beginning January 1, 2003, a minimum of 45 CPE credits with a minimum of 10 CPE credits per year, (ii) for the three-year reporting period beginning January 1, 2006, a minimum of 90 CPE credits with a minimum of 15 CPE credits per year, and (iii) for the three-year reporting periods beginning on or after January 1, 2009, a minimum of 120 CPE credits with a minimum of 20 CPE credits per year. The CPA certificate holder may choose the areas of study and courses.<sup>1</sup>

The board proposes to require that licensees obtain at least two CPE credits on ethics each year in order to maintain licensure. These six credits<sup>2</sup> will apply to the required total hours of CPE per three-year reporting cycle.

The proposed regulations state that "An outline of the required content for the course will be provided by the Board to CPE providers who must state in their Ethics CPE course material and related catalog summaries whether the content of the course includes the material required by the Board for the calendar year the course is provided." The *2004 Outline for Ethics CPE* (outline) is currently available on the board's website.<sup>3</sup> In practice it appears that the board interprets ethics to mean understanding and obeying current law and industry standards. Specifically, the outline states that in order to learn ethical behavior one must

- Read, study and ask questions about the following:
  - Statutes (laws) and regulations established by the Board of Accountancy;
  - The Code of Professional Conduct promulgated by the American Institute of Certified Public Accountants (AICPA);
  - Auditing and Independence Standards issued by the Comptroller General of the United States; and

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<sup>1</sup> Individuals under other circumstances have different CPE credit minimums.

<sup>2</sup> Two credits each year results in six credits over the three-year reporting cycle.

<sup>3</sup> <http://www.boa.state.va.us/>

- Auditor Independence Standards issued by the SEC for SEC engagements; or successors thereto, and effective at the time of the services.

Most of the outline consists of descriptions of significant changes to the above-mentioned codes and standards.

The required ethics course largely consists of information on the latest significant changes to the relevant codes and standards. For someone who was violating codes or standards due to ignorance, the required ethics course may reduce the probability that he will continue to commit such violations in the future. For someone who has been knowingly violating codes or standards, the ethics course will be unlikely to alter that behavior, unless he interprets the required course to be a signal that the provisions will be more strictly enforced.

The proposed ethics CPE requirement does not add to the total required number of CPE credits, but it does produce some cost for CPAs in that their flexibility in choosing how to meet their required 120 credits<sup>4</sup> within the three-year reporting cycle is reduced. Some or many CPAs may believe that the time and dollars associated with obtaining the six CPE credits on ethics could be more productively spent in other pursuits. This would be particularly true for CPAs who consistently keep current on significant changes to codes and standards without ethics courses. These individuals will be forced to spend time and dollars on courses that will very likely have no significant effect on their knowledge or behavior. Rather than require CPAs to take courses that consist of information on significant changes to codes and standards, the board might wish to consider requiring CPAs to attest to their having read and understood the significant changes. These changes could be provided online at the board's website. The board could also offer to send this information to CPAs without Internet access.

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<sup>4</sup> As described above, prior to the 2009 reporting period some CPAs are required to complete less than 120 CPE credits.

## Testing v. CPE

Requiring CPE is costly for CPAs in time and fees, and it does not provide any true assurance that CPAs continue to have sufficient knowledge to practice competently in their profession, particularly when the courses need not be on subjects related to enhancing or updating their professional competence. The public is informed via the Virginia Board of Accountancy Regulations (18 VAC 5-21) that CPE is defined as “an integral part of the lifelong learning required to provide competent service to the public; the formal set of activities that enables accounting professionals to maintain and increase their professional competence.” Upon hearing that CPAs are required to complete CPE in order to retain their CPA certificates and that CPE is defined this way, the public may be misled into believing that holders of CPA-certificates have demonstrated up-to-date knowledge in subjects directly related to CPA services such as, for example, the latest changes to tax law. This potential misapprehension by the public is costly in that clients may pay for a CPA’s services believing that he has skills and knowledge that he does not actually possess. Potential clients may forego searching for another CPA who does have the desired skills and knowledge because of the misapprehension.

CPAs can in practice meet their CPE requirement without taking courses that enable them to maintain and increase their professional competence. The board conducts 30 to 40 audits every month of CPA-certificate holders to check whether they are in compliance with their CPE requirements.<sup>5</sup> The board accepts as evidence of CPE credit hours documents from sponsors that include any of the following designations: CE (continuing education), CPE (continuing professional education), CLE (continuing legal education), CME (continuing medical education), or QAS (quality assurance service).<sup>6</sup> The board does not require that the sponsor be licensed, registered, certified, or evaluated in any way by any outside organization. The course can potentially be on any topic; the subject matter does not need to be related to accounting.<sup>7</sup> For example, the course could be on how to meet and obtain new clients. The CPA-certificate holder does not need to demonstrate that he has gained any knowledge or acquired any new skill.

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<sup>5</sup> Source: Board of Accounting

<sup>6</sup> Ibid

<sup>7</sup> Ibid

CPAs would be more likely to stay current in applicable knowledge and skills if the approvable CPE credits were restricted to courses on subjects strictly relevant to performing CPA services. Eliminating CPE credit requirements altogether and replacing them with continued competency testing would most likely be significantly more effective and efficient in providing accurate assurance of continued competency of CPAs than do CPE requirements.<sup>8</sup> Passing a continued competency exam provides significantly more information to the public concerning a CPA's knowledge and skills than do CPE requirements. This would reduce the likelihood that potential clients would misallocate their resources by hiring an individual whose skill and knowledge set were not what the client expected. Under competency testing, CPAs who are able to obtain the knowledge and skills needed to remain competent with less than 120 credit-hours of CPE over three years could potentially use their time and dollars more productively on other endeavors. However, they would remain free to take as many CPE courses as they wish. Hence, continued competency testing is more efficient. CPAs who fail to obtain the knowledge and skills needed to remain competent will be more accurately identified as such with continued competency testing than with CPE requirements. Being thus identified, many of these individuals would likely be compelled to make the extra effort necessary to remain competent.

### **CPA Examination**

In April 2004 the AICPA ended its paper-and-pencil CPA exam and replaced it nationwide with a computerized CPA exam. The examination requirements in the current regulations were designed for the paper-and-pencil CPA exam. The board proposes to amend the regulations so that the exam requirements will be applicable to the new computerized exam. Without the proposed amendments, candidates could not take the AICPA exam for certification in Virginia. Thus, the proposed amendments are beneficial in that they enable CPA candidates to become certified in Virginia.

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<sup>8</sup> This is not an option currently available to the board and would require legislative action.

Appendix A displays a table that shows some of the differences concerning examination under the proposed regulations (electronic AICPA exam) versus examination under the current regulations (paper-and-pencil AICPA exam).

## **Businesses and Entities Affected**

The proposed amendments affect the 16,606 licensed CPAs and the 1,463 licensed CPA firms in Virginia, as well as their clients and the 4,000 CPA-license candidates who annually take the CPA examination.<sup>9</sup>

## **Localities Particularly Affected**

The proposed amendments affect all localities in the Commonwealth.

## **Projected Impact on Employment**

The proposal to require CPE credits on ethics will increase demand for courses from sponsors that offer ethics CPE. Since it is likely that many CPAs do not voluntarily take more than the minimum required 120 credits<sup>10</sup> of CPE over the reporting period, demand for CPE from sponsors who do not offer ethics CPE will be reduced as CPAs switch from non-ethics CPE to ethics CPE. This may result in a small transfer in employment from sponsors who do not offer ethics CPE to those that do offer ethics CPE.

The proposal to amend the regulations so that the exam requirements will be applicable to the new computerized exam helps ensure that there will not be a disruption in the supply of new CPAs.

## **Effects on the Use and Value of Private Property**

The proposed ethics CPE requirement does not add to the total required number of CPE credits, but it does produce some cost for CPAs in that their flexibility in choosing how to meet their required 120 credits<sup>11</sup> within the three-year reporting cycle is reduced. The value of CPA practices may decrease slightly in that the time and dollars associated with obtaining the six CPE credits on ethics could potentially be more profitably spent on other CPE training.

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<sup>9</sup> Source: Board of Accounting

<sup>10</sup> As described above, prior to the 2009 reporting period some CPAs are required to complete less than 120 CPE credits.

<sup>11</sup> Ibid

The proposal to amend the regulations so that the exam requirements will be applicable to the new computerized exam increase the value of the accounting practices of individuals who will now be able to obtain CPA certification in Virginia due to the amendment.

## Appendix A

<b>Paper CPA Exam</b>	<b>Computer-Based CPA Exam</b>
<p>If at a given sitting of the exam a candidate passes two or more but not all sections, then the candidate shall be given credit for those sections that the candidate has passed and need not sit for reexamination in those sections provided the following conditions are met:</p> <p>a. At that sitting, the candidate wrote all sections of the exam for which the candidate did not have credit;</p> <p>b. The candidate attained a minimum grade of 50 on each section taken at that sitting when the first two sections were passed and in each subsequent sitting attains a minimum grade of 50 on all sections taken at that sitting;</p> <p>c. The candidate passes the remaining sections of the exam within six consecutive exams (irrespective of the date on which the credit was earned) given after the one at which the first sections were passed; and</p> <p>d. At each subsequent sitting at which the candidate seeks to pass any additional sections, the candidate writes all sections for which the candidate does not have credit.</p>	<p>Candidates allowed to sit for each section individually and in any order.</p> <p>Candidates will retain credit for any section(s) passed for 18 months, without having to attain a minimum score on failed sections and without regard to whether they have taken other sections.</p> <p>Candidates will not be allowed to retake a failed section(s) within the same CPA exam window (3 months).</p> <p>Candidates must pass all four sections of the CPA exam within a “rolling” 18-month period, which begins on the date that the first section(s) passed is taken. In the event all four sections of the CPA exam are not passed within the rolling 18-month period, credit for any section(s) passed outside that 18-month period will expire and that section(s) must be retaken.</p>